

# CITY OF HOUSTON

**Sylvester Turner**

Mayor

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To the people of Houston, Honorable Members of City Council and the Honorable City Controller:

I am pleased to present the proposed budget for Fiscal Year 2019, which begins July 1, 2018 and ends June 30, 2019. The proposed General Fund budget of \$2.48 billion increases spending by \$83 million or 3.5 percent from the FY2018 Current Budget of \$2.40 billion (excluding \$1 billion Pension Obligation Bonds issuance). The change is primarily driven by contractually mandated increases including Police pay raises for the current meet and confer agreement as well as scheduled increases in debt payments. The FY2019 proposed budget for all funds excluding transfers totals \$4.90 billion, an increase of \$156 million or 3.29% compared to the FY2018 Current Budget of \$4.75 billion.

For the third consecutive year, my annual proposal closes a budget gap -- in this case a gap of \$114 million -- without layoffs of City employees. This is done partly through more belt-tightening in municipal government as part of my duty to use the public's money in the most efficient manner. Since FY2017, we have reduced departments' budgets by more than \$80 million by eliminating vacancies, streamlining operations, and increasing efficiencies. This budget also maintains a healthy ending fund balance of 9.15 percent of operating expenditures less debt service and pay-as-you-go, above the required minimum of 7.5 percent established in the City's financial policies.

This is a forward-looking proposal that addresses economic uncertainties facing the City of Houston, and at the same time upholds my priorities -- public safety first and foremost, a welcoming city that offers opportunities to all and wise financial stewardship. This budget funds five police cadet classes and three fire department cadet classes, in addition to funding for contractual and mandated pay and benefit increases for police. After voter approval in November 2017 for historic pension reforms that put the City on a much stronger financial footing, the budget fully funds police, fire and municipal employee pensions. Additionally, this budget does not include any deferrals or one-time land sales.

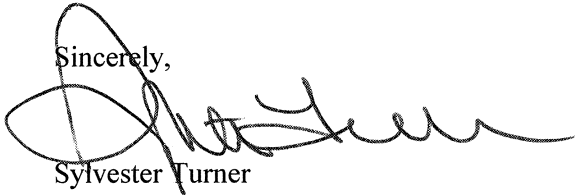
My staff and I are unflinching about what the budget does not address: the \$70 million to \$100 million needed to hire 500 additional police officers over the next five years, the City's 10 --15 percent share of recovery costs from Hurricane Harvey, replenishment of \$20 million taken from the Budget Stabilization Fund to cover early Harvey-related costs, \$629 million in deferred building maintenance and addressing the \$2.1 billion unfunded liability of Other Post-Employment Benefits. In addition, the City is in negotiations with the three employee unions, each of which is seeking pay increases, in turn putting more pressure on the City budget.

Beyond those described in this budget, further significant reductions in municipal government spending will not be practical for addressing financial issues without significant layoffs of key personnel. Sixty-three percent of the General Fund operating budget is earmarked for personnel costs, with three quarters of all personnel costs related to classified employees, meaning they are first responders and other public safety workers.

Overall, this budget combines top-priority services to the public and fiscal accountability – combining the essence of what Houstonians expect from their government. It provides the foundation for addressing future challenges with a practical, balanced approach. When I first took office, I understood the financial challenges Houston faced and immediately took several steps to overcome these challenges – one of which is the pension reform that was successfully passed by the State Legislature followed by the pension bond election that voters authorized.

In late August 2017, Hurricane Harvey hit Houston bringing record rainfall and billions of dollars of estimated damages to the region. In April of this year, the City took a major step forward with the approval of flood prevention reform. New construction will have to sit two feet above the 500-year floodplain, which is land predicted to flood during a once-every-500-years storm (17-19 inches of rain in 24 hours). We are being transformational, becoming a more resilient city, and that means doing business in a way we have not done before. As we build into the future we must protect the lives and property of Houstonians.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sylvester Turner', written over a horizontal line.

Sylvester Turner  
Mayor